

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /091 W
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R 121553Z SEP 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC 8729
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
AMEMBASSY HELSINKI
AMEMBASSY PARIS
USMISSION USNATO
CINCEUR VAIHINGEN GE
COMICEDEFOR KEFLAVIK IC

LIMITED OFFICIAL USE SECTION 1 OF 2 REYKJAVIK 1231

USOECD

E.O. 11652: N/A
TAGS: PGOV, ECON, IC
SUBJECT: NEW GOI ECONOMIC PROGRAM

REF: REYKJAVIK 1189 DTG 061150Z SEP 78 (NOTAL)

1. SUMMARY: USING AUTHORITY OF CABINET TO ENACT
LAW WHEN PARLIAMENT NOT IN SESSION, ON SEPTEMBER 8,
GOI ENACTED SERIES OF MEASURES INTENDED TO DEAL WITH
COUNTRY'S ECONOMIC DIFFICULTIES. PACKAGE INCLUDES
ATTEMPT CURB INFLATIONARY WAGE INCREASES BY LOWERING
PRICES ON FOOD ITEMS INCLUDED IN COST OF LIVING INDEX,
INCREASING PROPERTY, CORPORATE AND INCOME TAXES, AND
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IMPOSING HIGHER IMPORT FEES ON SOME CATEGORIES OF
CONSUMER GOODS. FOREIGN EXCHANGE ALLOWANCE FOR
TRAVELERS INCREASED. PRICES FROZEN EXCEPT FOR "NECESSARY"
INCREASES. GOI SPENDING TO BE TRIMMED BY IKR. 2 BILLION.
END SUMMARY.

2. KEY FEATURE OF GOI ECONOMIC PACKAGE IS COMPLEX

SCHEME TO HOLD WAGES IN CHECK WHILE APPEARING TO HONOR CAMPAIGN PROMISES TO ALLOW FULL COST OF LIVING INDEXATION INCREASES DUE UNDER JUNE AND OCTOBER 1977 WAGE AGREEMENTS. NEW LAW RESTORES FULL INDEXATION (WHICH WAS MODIFIED BY PREVIOUS GOI IN FEBRUARY AND MAY) TO ALL WAGE EARNERS EXCEPT THOSE EARNING MORE THAN IKR. 233,000 PER MONTH FOR DAY WORK. THOSE OVER IKR. 233,000 WILL RECEIVE FLAT AMOUNT NOT YET ANNOUNCED. SOCIAL SECURITY BENEFITS WILL INCREASE WITH WAGES. HOWEVER, INDEX ITSELF WILL BE PUSHED DOWNWARD.

3. NEW LAW LOWERS FOOD PRICES BY ELIMINATING 20 PERCENT SALES TAX ON ALL FOODS EXCEPT SWEETS AND SOFT DRINKS AND BY INCREASING LOCAL AGRICULTURAL SUBSIDIES 4.9 PERCENT. USING THIS RECALCULATED BASE, INDEX TO BE USED RETROACTIVELY IN COMPUTING SEPTEMBER 1 WAGE INCREASES SHOULD BE LOWERED BY ABOUT 7.5 PERCENT.

4. COROLLARY PROVISION INSERTED AT INSISTENCE OF SOCIAL DEMOCRATIC PARTY (SDP) REQUIRES COMPLETE REVIEW OF PRICE INDEX TO BE CARRIED OUT BY DECEMBER 1. TIME LIMIT WAS OPPOSED BY COALITION PARTNERS AS UNREALISTIC, BUT SDP ALLEGEDLY THREATENED TO LEAVE COALITION IF DECEMBER 1 DEADLINE NOT ACCEPTED.

5. PROPERTY TAX INCREASES TO BE LEVIED BEFORE LIMITED OFFICIAL USE

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END OF YEAR WILL PUSH UP TAX BILLS BY 50 PERCENT ON PROPERTY HELD BY INDIVIDUALS AND BY 100 PERCENT ON PROPERTY HELD BY CORPORATIONS. LAW ALSO PROVIDES FOR RETROACTIVE INCREASE OF 6 PERCENT ON 1977 INCOME TAX FOR INDIVIDUALS WITH TAXABLE INCOME OVER IKR. 2.8 MILLION AND COUPLES OVER 3.7 MILLION. LOWER INCOME GROUPS NOT AFFECTED. CORPORATE TAXES ALSO INCREASED 6 PERCENT ON EARNINGS AND DEPRECIATION, BUT LESS LOSSES, FOR 1977.

6. SURCHARGE ON IMPORTS INCREASED FROM 16 TO 30 PERCENT ON RANGE OF CONSUMER GOODS INCLUDING SOME CHEMICAL PRODUCTS, AUTO ACCESSORIES, ARTISTS SUPPLIES, COSMETICS AND TOILETRIES, FILMS, BICYCLES, CAMPING TRAILERS, CLOCKS, JEWELRY, MUSICAL INSTRUMENTS, TAPES AND RECORDS, SOUND RECORDERS AND REPRODUCERS, GLASSWARE, GOLD AND SILVERWARE, RAZORS, FIREARMS, GASOLINE AND DIESEL ENGINES, A WIDE RANGE OF ELECTRICAL GOODS, AND MISCELLANEOUS MANUFACTURED ARTICLES.

7 ALTHOUGH FOREIGN EXCHANGE ALLOWANCE FOR TRAVEL DOUBLED, SURCHARGE ON SUCH TRANSACTIONS IS INCREASED 10 PERCENT, EFFECTIVELY REDUCING EXCHANGE RATE VALUE

OF KRONA FOR TRAVELER.

8. GOI TREASURY EXPENDITURES ARE TO BE REDUCED BY
IKR. 2 BILLION IN CURRENT FISCAL YEAR. LAW CONTAINS
NO INDICATION WHERE SUCH CUTS CAN BE MADE IN FEW
MONTHS REMAINING. GOI FISCAL YEAR BEGINS IN JANUARY.

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9. COMMENT: WAGE INDEXATION SCHEME REFLECTS ATTEMPT
BY GOI TO HAVE CAKE AND EAT IT. POLITICIANS CAN
PUBLICLY CLAIM TO HAVE KEPT PROMISE TO RESTORE FULL
INDEXATION AND EVEN TO HAVE LOWERED CONSUMER PRICES.
IN REALITY, INDEXATION BASE HAS BEEN LOWERED, TAXES
INCREASED, AND IMPORTS MADE DEARER (BOTH BY DEVALUATION
AND INCREASED SURCHARGE). TARGET OF PROGRAM IS TO
MOP UP EXCESSIVE DEMAND IN ECONOMY GENERATED BY LAST
YEAR'S HIGHLY INFLATIONARY WAGE AGREEMENTS. IT MIGHT
BE SIGNIFICANT THAT GOI IMPOSED NO NEW PRICE CONTROL
MACHINERY. EARLIER GOVERNMENT PRICE BOARD STILL
OPERATING AND UNDER NEW LAW CAN GRANT PRICE INCREASES

IN "NECESSARY" CASES. UNDER REVISED GUIDELINES,
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IMPORTERS ARE NOW REPORTEDLY BEING ALLOWED TO RECOVER
ONLY 30 PERCENT OF INCREASES CAUSED BY DEVALUATION, A
RULING WHICH HAS ALREADY CAUSED LOCAL CHAMBER OF
COMMERCE TO THREATEN LAWSUIT.
BLAKE

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